(306) 652-9465
76
ENUE SOUTH, SASKATOON, SASK. S7K 2M1

national farmers union

Submission

to the

Senate Agriculture Committee

on the subject of

Beef Stabilization

Ottawa, Canada

March 3,1977

TELEPHONE: (306) 652-9465
TELEX: 074-2376
250C - 2ND AVENUE SOUTH, SASKATOON, SASK. S7K 2M1

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Ottawa, March 8, 1977

INTRODUCTION

1. We appreciate your invitation to outline our views on beef stabilization. It is essential that we first outline briefly the structure of our organization.

2. The NFU is a voluntary organization of farm families who pay annual membership fees of $100. This entitles the farmer and spouse as well as dependent young people between 14 and 21 to membership in the organization. We are, in short, a family organization.

3. The NFU is non-racial, non-sectarian and non-partisan in politics. We have membership and active locals in the provinces of Prince Edward Island, New Brunswick, Ontario, Manitoba, Saskatchewan, Alberta and the Peace River area of British Columbia.

4. Our organization is structured within a national framework and includes producers of all major commodities who belong directly to the national organization. There are no autonomous provincial bodies. In this sense, we are different from organizations structured along individual commodity lines, usually on a provincial basis.

5. As a national direct membership organization, we believe:

a) Most major farm problems require national solutions.

b) Farmers of differing commodities must share a mutual interest in the welfare of one another and toward this end must learn to resolve differences of interest that

can and do exist between them in order to prevent them from becoming conflicts of interest.

c) Farmers need to directly and democratically participate in policy discussion and development. In order to achieve this, they must organize as farmers and learn to live with one another rather than off one another.

6. This type of organizational approach is not the easiest to achieve. However, in our current Canadian political climate, rural voters are rapidly declining in political influence relative to urban voters. In the numbers game played by all political parties who have aspirations for power, farmers cannot afford to remain fragmented and disunited.

7. Autonomous commodity groups and federations of such groups at provincial or national levels can at best attempt to achieve broad consensus on policy goals. On occasion they may fail even in attaining this objective.

8. Our unified approach to farmer organization is less likely at times to identify the NFU as a credible spokesman for farmers on specific commodity issues among the media and some politicians.

9. There are times when it appears that the legitimacy of instantly self-proclaimed spokesmen on specific commodity issues is accepted without question and hailed as speaking "for the industry". All that is required is another soapbox and producers of that commodity are again being represented - whether they like it or not. We estimate from surveys annually taken at our national convention that no less than 60 per cent of our members are beef producers.

10. In some instances organizations are legislated into existence without prior producer consultation and financed by a legislated commodity check-off.

11. The existence of the present multiplicity of farm organizations unfortunately distorts and confuses the many complex issues which confront farmers.

12. As a consequence, farm organization spokesmen have at times been relatively ineffective in directing government policy changes along the most constructive course. In aggregate, the proliferation of organizations is expensive to farmers.

13. From the point of view of governments, the existence of many organizations, while not helpful, may not be regarded as entirely undesirable since it permits a freer hand to follow whatever policy course is regarded at the moment as the most politically expedient. Indeed it is questionable whether any government seriously wishes to have farmers well organized.

14. We cannot visualize governments arbitrarily initiating frequent and ad hoc policy changes, as now occurs, if one direct membership farm organization effectively represented and bargained for all commodity sectors of agriculture.

15. While that goal may be in the future, it is an attainable goal as it has been in other advanced countries. It remains a goal of the NFU. Our organization for the present claims to represent a cross-section of farmers in Canada broad enough to have developed a comprehensive farm policy.

THE NATURE OF STABILIZATION

16. The purpose of the study in which your committee is engaged is to determine the need for stabilizing producer beef prices in Canada.

17. To the extent that slaughter beef is now a mandatory commodity eligible for stabilization under the Agriculture Stabilization Act, the question of principle is not really at issue. The federal govern-

ment is committed, in broad terms, to beef stabilization. We agree stabilization is necessary. The prime question is the form of stabilization and the manner in which it will be applied.

18. There are a number of criteria that can be applied to the term "stabilization".

19. For example, stabilization can take the form of a basic market price guarantee below which a product cannot be purchased. Surplus stocks acquired by the trade may, in some circumstances, be purchased by the government at a guaranteed price and disposed of as it sees fit. No other public funds for direct payment to producers need be involved.

20. Stabilization can be a supply management program related to a guaranteed support price plus additional payments which may be related to production costs as is now done in the dairy industry.

21. Stabilization can be achieved through the operation of a supply management program and administered pricing as currently characterizes the egg industry.

22. The purposes of stabilization can include:

a) The need to assure producers of predetermined price guarantees in order that they may plan their production;

b) The need to assure adequate supplies of a product to meet all or a portion of domestic requirements;

c) An attempt to stabilize prices to consumers;

d) Modification of the harsh effects to producers of a market economy, thereby reducing economic risks to farm creditors.

23. The current stabilization program for A1 and 2 slaughter steers and heifers meets none of these criteria or goals.

24. It is, in the truest sense, not a stabilization program at all because:

a) It permits the market system free play in determining prices and hence does not remove wide fluctuations.

b) There is no regulatory agency or supply management program involved.

c) Imports of like products are relatively unrestrained.

d) The level of price support was, in 1976, announced "after the fact" and therefore could not act as a production guide to producers. Similarly, the level of support for 1977 has not yet been announced.

e) The producer has no way of knowing whether or not he will, in fact, be compensated for losses because of the national average weighting formula used to determine the level of payments.

25. In summary, slaughter beef stabilization programs that have been in effect within the past two years have been designed for the sole purpose of recouping, in part, heavy market losses experienced by producers. In some instances the program has failed to accomplish even this objective.

26. It is noted that the 1976 stabilization program was eventually set at 95% of the previous five-year average. If it had not been set at $40.16, the 90% support level would have been only $38.05 per cwt. and little payment would have been made for 1976. If the additional positive modification of quarterly payments had not been devised, payments in 1976 would have been considerably lower. As desirable an improvement as they are, quarterly payments are not part of the Act and so remain discretionary. We believe they should become a permanent feature of the A.S.A.

27. In short, the basic stabilization program for beef based on a minimum guarantee of 90% of the previous five-year average related to an annual weighted average price is really inadequate to either stabilize

national beef production or the income of beef producers. The two modifications for 1976 referred to (95% of the previous 5 years and quarterly payments) must be regarded strictly as political decisions to salvage the program from total ridicule. The 90% level of support would have resulted in no payments in the first two quarters of 1976 and only 89¢ and 87¢ per cwt. respectively in the third and fourth quarters.

28. As a matter of principle, we do not believe such an ad hoc approach to stabilization is good enough to stabilize the production or prices of beef or any other commodity.

29. It is difficult to estimate accurately the financial losses to producers of finished beef in 1976. However, if one can accept that the 95% support level will result in estimated government expenditures of $45 million, it would have cost at least a further $45 million for farmers to realize 100% of the previous five year average, namely $42.27 per cwt.

30. In so stating, we do not concede that the five-year average price was either an appropriate or adequate price in 1976 considering that the five-year average price previous to 1975 was in the $49-$50 range. If that price could be regarded as a fair one, losses in 1976 would reach the $200 million level.

31. In contrast to the apparent millions of dollars farmers have lost in spite of stabilization, packing company profits have flourished. The latest available profit figures for Canada Packers, for example, indicate its net earnings in 1976 to be $21.53 million while its net earnings in 1974 and 1975 were $19.1 million and $16.24 million respectively. The company's average annual increase in net profit between 1970 and 1976 was 17.7 per cent while their average annual increase in revenue was only 12 per cent. Burns Foods recorded a

similar annual increase (17.57 per cent) of net profit between 1970 and 1976. Its net earnings increased from $2.9 million in 1970 to $5.64 million in 1976.

32. The phenomenal rise in packing company net earnings have taken place even though the slaughter capacity of the industry is considerably underutilized. Information tabulated by the Food Prices Review Board and reproduced by the Food Systems Branch, Agriculture Canada, indicates that in the period January 1974 to July 1975, only 65.1 per cent of cattle slaughter capacity and 53.6 per cent of hog slaughter capacity was utilized by Canadian meat processing plants. (See Table 1, Appendix A)

33. Farm losses, including the equivalent value of stabilization payments they receive, represent a direct transfer of wealth from the farm sector to the industrial sector.

34. Consumers, too, have enjoyed relatively low cost beef. In a situation where a declining percentage of aggregate average income (19%) is now spent on food and per capita consumption of beef (102 lbs.) continues simultaneously to rise, suggests consumer prices for beef have been at lower than affordable levels.

35. The recently announced federal cow-calf stabilization program for 1977 comes at a time when many farmers have already borne the brunt of losses and suffered the pangs of severe economic adjustment. The support level of 90 per cent of the September to December national average of the past five years is of small comfort. This marketing period is the lowest price of the entire year. It is, after adjustments, a program which supports a maximum of only 67 animals per farm unit.

36. We regret the delay in federal action respecting the acceptance of stabilization responsibility for cow-calf operations. Cow-calf operators in the main producing provinces have borne the brunt of

depressed prices during the past four years. The Alberta Department of Agriculture estimates 1976 losses to cow-calf operators with 138 cows on return over cash costs to have been $5,963. If return to labour and management were also included, this loss increased to $26,635. In the year previous, loss on return over cash was $4,820. Together with loss on return to labour and investment, this figure increased to $22,906. Cow-calf operators in that province have shown no net return to labour and management since 1972.

37. The emergence of varying and diverse income assurance or grant and loan programs for cow-calf producers in individual provinces is, in our view, an undesirable development because it impedes the achievement of a common stabilization program for all producers. It also distorts the natural advantages in beef production in some regions in relation to others and results in the improper allocation of resources.

38. The reluctance of the federal government to become involved earlier in supporting this basic industry has in reality contributed toward destabilizing the beef industry in Canada, has damaged producer confidence and now makes it more difficult to establish a comprehensive national cow-calf support program.

THE NATURE OF THE PROBLEM

Background

39. Much has already been said before this committee on the difficulties confronting Canadian producers of feeder cattle and finished beef in the course of the past three years.

40. The Food Systems Branch, Agriculture Canada, last October released a reference document entitled "The Canadian Beef System, 1976". Information on the beef industry was summarized as follows:

Scale of the Beef System

Total cattle population (head)	14,676,000
Beef cow herd (head) (1976)	4,375,000
Dairy cow herd (head) (1976)	2,135,500
Total Inspected Slaughter (head) (1975)	4,019,781
Farm cash receipts from beef & veal (1975)	$1.78 billion
Proportion of total farm cash receipts (1975)	18.2%
No. of farms producing beef (1971 census) (includes cattle, hogs, and sheep)	89,610
No. of dairy farms (1971 census)	55,341
Acreage in forage production for cattle	24.0 million
Acreage in range for beef	50.0 million
Total value of meat output by packing industry (1974)	$3.3 billion
Proportionate value of beef products (1974)	58.2%

41. In addition to the preceding statistical summary, it is a known and accepted fact that the growth rate of our per capita consumption is exceeding production. Canada has been a net importer of beef since 1969.

42. Per capita consumption in 1975 reached 102.3 pounds and is estimated to have reached 108 pounds in 1976. Still the number of beef cows in Canada in 1976 is down by 8 per cent from 1975 levels indicating our net deficit in beef production will continue to grow.

43. In apparent contradiction to the normal rules of the free market system, prices for A1-2 steers on the Toronto market averaged $41.89 per cwt. in 1976, compared with $46.99 in 1975. That represents a decline of $4.90 per cwt. or 10.4 per cent.

The Market System

44. The market system as it presently exists has failed to return to producers proper value for their product.

45. A study* entitled "Trends in Cattle and Calf Marketings at Public Stockyards" by J. C. Lowe and T. M. Petrie (economists with the Economics Branch, Agriculture Canada, Regina) reports a "significant decline in public stockyard receipts of cattle and calves relative to

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* Source: Canadian Farm Economics, Vol. 11, No.3, June, 1976.

other sales methods over the past two decades suggests that the reliability of the market information generated at public yards may be deteriorating."

46. The study found that in 1974 about 1.1 million head of slaughter cattle and calves were marketed through public stockyards, constituting about 32 per cent of federally inspected cattle and calf slaughter. The proportion was 52 per cent in 1955. Stockyard receipts of slaughter cattle alone accounted for approximately 30 per cent of the 1974 inspected cattle slaughter and 61 per cent of the 1955 slaughter.

47. It is ironical that while some producers and producer groups loudly proclaim the virtues of competition and the need to maintain the present free market system, they are increasingly contributing to its ineffectual performance and demise through actions which erode the competitive climate it is intended to foster. Many producers suffer from a myth that they, as individuals, possess bargaining power in an oligopolistic market situation. There is little doubt that the processing trade itself is further encouraging the destruction of the competitive market system through the various alternate choices available to it for the acquisition of supplies.

48. The ineffectiveness of the present market system from the producer's point of view is one of the major problems facing beef producers.

49. Within the past two years, a commission of inquiry in the province of Manitoba and a federal beef commission have both pinpointed several weaknesses in the existing market system for beef.

50. The federal inquiry, in spite of its bland and cautious approach to the entire subject of beef marketing uncovered serious inequities.

51. Among its conclusions were comments such as these:

a) The market information reporting system is insufficient, inaccurate, fragmented and unresponsive to change.

b) The marketing system has, because of a number of constraints, been unprogressive in some important areas.

c) There are serious inequities in the prices producers receive for live cattle of the same quality in the same market. These inequities occur regardless of how the producer sells his animals or the region in which they are sold.

d) There are important inequities in the live and carcass beef prices paid, respectively, to producers and packers in different regions of the country. Some of these inequities are more pronounced for lower grade animals and for heifers.

e) The marketing system has generated unjustified price discrimination against some classifications of beef produced in Canada.

f) The lack of uniformity in names of beef cuts and the absence of grade identification at the retail counter make accurate price comparisons difficult if not impossible.

g) If carcass beef processing continues to be done by retailers, this will inhibit the more important gains that can be made in the marketing system for the future.

h) There are unnecessary costs in the marketing system.

i) The live to wholesale price spreads vary significantly. by grade and show substantial regional differences. Wholesale to retail price spreads vary greatly within markets and by region.

j) While, on average, a constant share of the consumer's dollar goes back to the producer, it is significantly less than the 75% that has been reported by some agencies.

k) Producers do not seem to have chosen the most economical method of marketing their animals for slaughter.

l) The receipt of part of the saving in the form of a freight rebate by the wholesaler in Montreal is in fact a hidden increase in his commission which distorts the reported carcass market price in Montreal.

52. In respect to the highly controversial Montreal market, the federal commission stated "....Thursday is the day that the Montreal market price is established. Negotiations continue between the wholesaler and broker, who act on behalf of the packer, until a transaction is firmed, thereby establishing the market. Such a transaction usually consists of one particular car order being purchased at a certain price,

then the market tends to accept the price for one order as a common price for all that company's beef. In turn, other packers must meet the price."

53. Where does the producer fit into negotiations? His role under the current marketing system is limited to production. Producers who express concern over the possible introduction of an orderly marketing system because of possible supply management features need reminding that the Montreal market is both orderly and manages supply very effectively from the view of its own particular biased needs.

54. In spite of all the glaring findings by the federal commission, it basically recommended only modifications to the existing marketing system which would eliminate some of its current unethical practices.

55. In short, the federal inquiry recommended only treatment of the symptoms rather than the causes of marketing inequities.

56. The Manitoba Commission found many of the same marketing inequities reported by the federal commission.

57. It found that in the case of beef, Winnipeg retail prices averaged 16 cents per pound above Toronto prices. During the same time period wholesale carcass prices in Winnipeg were 2.9 cents below Toronto's. In other words, Winnipeg retailers were buying their beef for less and selling it for a lot more than their Toronto counterparts. The report stated "the conclusion one seems forced to reach is that Winnipeg food chains were charging consumers twice as much for retailing fresh beef cuts as Toronto food chains did".

58. The Manitoba Livestock and Meat Commission also examined the pricing of beef cattle to producers. In a special research report, the Commission disclosed inaccuracy and discrimination in the present selling methods.

59. When cattle are sold on a rail grade basis, the grade and yield

are accurately known so one would assume accuracy and uniformity in prices paid to producers. This is not the case. The C ommission reported, "The occurrence of serious price discrimination is quite evident," and "These results clearly show that the proportion of producers receiving approximately identical prices for steers of identical grade and weight class sold on a rail grade basis on any day was small."

60. Discrimination was especially severe in discounting the price of cattle sold "subject", though the Commission stated, "There is no justification for these large discounts for 'subject' compared to regular rail grade cattle.

61. "Apparently, packers are able to purchase these at such large discounts because little or no attempt is made by the seller to negotiate prices on 'subject' cattle."

62. A comparison of live vs. rail grade method of selling disclosed the packers paid lower prices for rail grade purchases. Modestly higher prices were paid for cattle purchased on a live basis direct than for those purchased on a rail grade basis.

63. The latter is ironic, since the rail grade method of buying considerably reduces a packer's risk of costly over-estimation errors. This would seem to justify a modest premium for rail grade purchases over live purchases. The discount for rail grade cattle confirms the impression that direct to packer selling is not very competitive and puts many producers in a weak bargaining position."

64. Unlike the federal commission, the Manitoba inquiry recommended the structuring of a beef marketing commission in the province to be replaced by a producer elected marketing board within three years.

65. Currently, in Manitoba producers have been voting on a proposal of the Manitoba Minister of Agriculture that a producer elected marketing agency be established which would provide producers with a

marketing option to sell through the agency with price settlement subject to rail grading and remove the current option of direct plant delivery.

66. We regard the proposal of the Manitoba government as inadequate to appreciably increase competitive bidding among packers or improve the bargaining position of the producer.

The North American Market

It has often been stated that the Canadian beef industry operates on a North American market. Beef prices in the United States provide both a floor and ceiling price structure for Canadian producers.

68. The federal Food Systems Branch observes as follows:

> "If we continue to operate on a net import basis with the U.S., Canadian producers can receive up to approximately 5¢ per lb. live weight more for their beef than their U.S. counterparts. On the other hand, maintaining a competitive position with the U.S. would seem essential."

69. The statement strongly implies that Canadian producers are better off to remain in a deficit position in respect to beef production. In other words, we should look forward to relying on imports to supply a share of our domestic market requirements.

70. For 1977, that import requirement has been negotiated between this country, the United States, Australia and New Zealand to be 144.75 million pounds of beef and veal distributed on the basis of 24.75 million pounds from the U.S., 59.35 million pounds from Australia and 60.65 million pounds from New Zealand. No similar undertaking exists in respect to live cattle imports from the U.S.

71. A quarterly quota on offshore imports has been set only for the January to March period. Thereafter we will be literally "playing it by ear" to determine whether or not imports are being disruptive to our market price or supply situation. Furthermore, there is no price

stipulation, as there was in the latter part of 1976, that oceanic imports into Canada not be less than 6 cents below New York prices.

72. As a consequence, our producers are once again extremely vulnerable to the dislocation of market prices that can result at crucial times by the release into the system of imported storage stocks of beef. When seasonal market prices are up, those in control of storage stocks will be able to release supplies for profit maximization.

73. In reality, the price levels at which Australian and New Zealand beef have been able to enter Canada are unrelated to North American prices. Imports from these countries are, in our view, intercorporate transfers (as in the case of supplies which may be brought in by Canada Packers) or represent sales to other domestic brokers and corporations for the purpose of making a quick dollar under the umbrella of North American prices.

74. In this circumstance, one must suspect that the interests of the corporate world are best served by Canada remaining a deficit producer of beef. To the extent they are able to erode our self reliance for beef, the trend toward expanding imports is likely to continue. Present policies, by our definition, lean heavily toward the concept of allowing "comparative advantage" to determine whether we in fact become self-sufficient or rely increasingly on imports. It is ludicrous, for example, that Air Canada reportedly utilizes off-shore beef to serve its domestic passengers.

75. No significant consideration is apparently given by our policy makers to other related effects to the economy resulting from beef imports, such as:

a) The loss of potential employment opportunities in secondary industries.

b) the inefficient use of plant facilities operating below maximum potential;

c) the number of livestock equivalent to imports that could be produced in Canada to expand farm income; and

d) the additional volume of domestic feed grains that would be consumed.

76. We are in reality part of a world beef market with different pricing zones. Canada-U.S. trade in beef is relatively small in comparison to total world movement. The U.S., while the largest producer, is also the world's largest importer of beef, having recorded, in 1975, a net deficit in the fresh chilled and frozen meat trade of 536.4 thousand metric tons. (See Table 2, Appendix A)

77. Predictions are that North American beef prices will strengthen in 1977 or by early 1978. We submit that the value of offshore beef may not necessarily rise in price. If a rise in price does occur in North America, it will certainly be of windfall benefit to the import trade.

78. The beef industry is rapidly expanding in Latin and South American countries. Two articles in Appendix A, one dealing with the operations of the German owned Volkswagen corporation and the second with U.S. based Deltec International, outline, in part, developments in beef production occurring in South America. These developments have far-reaching implications to Canadian producers. Producers and policy makers in this country are remiss if they do not seriously take into account current developments in other areas of the world that can affect the future stability of our industry.

79. Table 3 in Appendix A, outlining the comparative retail food prices in selected world capitals in U.S. dollars per pound, confirms that the best consumer buys in the world for beef are to be found in Brazil and Argentina. We cannot remain unaware of or indifferent to these developments and the implications to Canada's national livestock policy.

80. In summary, Canada's primary beef industry operating under a market economy with relatively easy access of imports to our markets will continue to undermine the stability of Canadian producers, unless major structural changes in marketing and distribution take place.

Feed Grains Policy

81. A further issue related to stability of the beef industry is the need to restore orderly marketing to the feed grains industry.

82. The arbitrary removal of the orderly system for marketing domestic feed grains has done nothing to restore confidence to the beef industry. Restoration of open market trading for feed grains was a regressive measure. It was a blatant attempt to solve the cost price squeeze of beef producers by introducing measures designed to lower the price of feed grains. Partial removal of feed freight assistance and the pricing of feed grains in western Canada on the basis of Montreal corn competitive prices less transportation and handling was an extension of the objective to depress feed grain prices.

83. It has never been our objective that beef producers should be held to ransom because of artificially high world grain prices. NFU policy calls for a complete two price system for all Canadian grain (domestic and export). However, prices must bear proper relationships to end uses and be properly administered by a Canadian Grains Board.

84. We believe such a policy would establish fair and equitable feed grain prices to stabilize this important input cost of the livestock industry. Graphs in Appendix A compare the general price trends in farm input costs and agricultural prices as compared to the relationship between feed and feeder cattle prices. Instability in feed prices contributed to instability in the prices for feeder cattle. Restoring a stable marketing and pricing mechanism to the feed grains industry

is an essential step in developing a stable livestock industry.

CONCLUSIONS

85. The instability confronting beef producers in Canada comes as a result of the continuing existence of an outdated and antiquated system of marketing and pricing beef controlled and manipulated by powerful oligopolies.

86. Under existing circumstances producers have no meaningful bargaining power in the market place. Evidence from two recent commissions of inquiry indicatesthat frequent discrimination is exercised by the trade in treatment between producers. Such discrimination apparently is interpreted by some favored producers to mean that they, as individuals, possess market influence and power. In reality, they are pawns in perpetuating a myth and thereby render a great disservice to the entire industry.

87. The role of the North American market chiefly establishes a level of prices that is unrelated to the farmer's costs of production. Nonetheless, price levels established for North American beef serve as a profitable umbrella under which low cost imports can be marketed by the controlling corporations. Canada has no surplus beef production. Beef surpluses in this country, when they exist, are the result of imports.

88, It is in the national interest that Canada have a primary beef producing industry. It is essential from the standpoint of such considerations as:

a) Properly utilizing our potential natural resources;

b) Providing opportunities for agricultural diversification;

c) Providing secondary industry and employment;

d) Holding down the level of our foreign trade deficits.

89. The federal government has demonstrated extreme reluctance to interfere in the operation of the current market system for beef, in spite of the tremendous economic losses incurred by beef producers. Cheap food for consumers at the expense of farmers is obviously a public priority.

90. Caught in the embarrassment of the transparent and disruptive rip-offs suffered by producers under the existing market system and the need to maintain producer confidence in the beef industry, the current stabilization programs have been introduced. It must be noted, however, that these programs in no way interfere with or alter the operation of the current market system and make no demands of it. They only protect the producer in a minimal way while a tremendous transfer of wealth continues to flow from the farm sector to the corporate sector.

91. In its stabilization programs, the federal government is treating only the symptoms and not the causes of instability in the beef industry.

RECOMMENDATIONS

92. There is an obvious and urgent need for federal government commitment toward a policy which will encourage our potential attainment of self sufficiency in beef production with an objective of establishing continuity in exports.

93. As a primary step toward achieving self sufficiency, it is necessary to restore the confidence of beef producers through an adequate marketing system. Since the existing marketing system has repeatedly failed to stabilize production or the income of beef producers, we believe it necessary to drastically alter it.

94. <u>In order to countervail the abuse of market power exercised by corporations against farmers, we recommend the introduction of greater public planning in the beef industry through the organization of a National Meat Authority which would be accountable, through parliament, to farmers and the general public</u>.

95. We visualize the powers of such an authority to include:

a) The calculation of <u>national beef production targets through negotiations with producers</u> for domestic and export requirements and encouraging the needed production;

b) The power to <u>market slaughter livestock and allocate supplies</u> in order to maximize efficient use of transportation and processing facilities;

c) Ending the <u>stranglehold of the Montreal market</u>;

d) Holding <u>jurisdiction over all exports and imports</u> of dressed beef and veal and slaughter cattle;

e) Assuming responsibility for the <u>regulation of quality, grades and weights</u> and for negotiating prices regionally which will reflect these factors.

f) Periodic price pooling as it may from time to time determine;

g) Adopting <u>new procedures for marketing meat</u> including negotiation of <u>long term agreements</u> with buyers, domestic and export, with volumes and price determined on a forward basis with escalator clauses geared to inflationary factors present in the economy.

96. We recognize that under the BNA Act, <u>delegation of marketing powers now vested in the provinces would need to be transferred to the National Authority</u>. Because of the provinces' jurisdiction over

intraprovincial trade, in circumstances where agreement to delegate powers cannot be reached with some provinces, provincial marketing agencies will need to be established in the remaining ones. Where two or more provinces can agree, an interprovincial joint authority could then be established as an interim measure.

97. The auction method of selling livestock for slaughter should be abandoned, as well as the teletype system of selling, and be replaced by a system which establishes price and other conditions of trade through negotiations between producer representatives, the National Authority and the trade.

98. Price stabilization of beef, within the framework of a National Meat Authority, is a matter of government policy. It might take the form of establishing basic floor prices below which level the domestic trade is not permitted to buy. Producers might later be compensated for losses which may have resulted should average prices for any given year fall below average costs of production. Payments to any one producer should be limited to predetermined volumes. Non-farm enterprises should not be eligible for stabilization payments.

99. We strongly recommend that a separate and distinct national stabilization program for cow-calf production be continued and improved in future years. The level of stabilization must be known in advance of each year and come closer to meeting average costs of production, including a return to labour and management when shortfalls in market prices occur.

100. As a final recommendation, we believe the establishment of an orderly marketing system for feed grains with the authority to allocate supply and fix prices is a critical and urgent requirement in stabilizing the beef industry.

All of which is respectfully submitted by

THE NATIONAL FARMERS UNION.

APPENDIX A

TABLE 1

AVERAGE PERCENTAGE OF SLAUGHTER CAPACITY USED
IN CANADIAN MEAT PROCESSING PLANTS, ** 1974 - 1975

Region	Species	Jan-Jun 1974	Jul-Dec 1974	Jan-Jul 1975	Jan-Dec 1974	Jan 1974 Jul 1975
Atlantic	Cattle	41.6	53.3	60.7	47.4	51.8
Provinces*	Hogs	52.2	45.1	49.6	48.6	49.0
Quebec	Cattle	54.4	72.7	70.1	63.5	65.7
	Hogs	64.9	64.6	69.5	64.7	66.3
Ontario	Cattle	75.9	73.2	81.0	74.5	76.7
	Hogs	84.6	78.3	79.6	81.4	80.8
Manitoba	Cattle	52.7	56.7	59.4	54.7	56.3
	Hogs	49.4	43.9	28.6	46.7	31.9
Sask.	Cattle	41.9	46.2	41.6	44.1	43.1
	Hogs	67.9	46.4	42.7	57.1	52.3
Alberta	Cattle	58.9	67.3	75.4	63.1	67.2
	Hogs	50.9	44.1	38.9	47.5	41.9
British	Cattle	33.4	48.8	49.2	41.1	43.7
Columbia	Hogs	24.4	24.8	24.8	24.6	24.6
CANADA	Cattle	60.0	65.0	70.3	62.5	65.1
	Hogs	62.2	55.8	51.7	59.0	53.6

* Includes Newfoundland, New Brunswick, Nova Scotia, and Prince Edward Island.

SOURCE: Food Prices Review Board.

** Based on data from 154 Federally and Provincially inspected meat processing plants (excluding plants specializing in such secondary processing activities as canning and sausage making).

EXTERNAL TRADE - TABLE 2

FRESH, CHILLED & FROZEN MEAT
1973-75

COUNTRY	BEEF EXPORTS 1973	1974	1975	BEEF IMPORTS 1973	1974	1975
	--- Thousand Metric Tons ---					
North America						
Canada	30.4	20.5	11.5	67.8	53.6	58.3
U.S.	32.8	22.2	20.9	611.6	490.4	557.3
TOTAL	63.2	42.7	32.4	679.4	544.0	615.6
South America						
Argentina	294.2	106.3	93.2	--	--	--
Brazil	98.5	19.2	5.3	--	--	--
Uruguay	111.4	99.6	78.7	--	--	--
TOTAL	504.1	225.1	177.2	--	--	--
Oceania						
Australia	627.7	324.8	517.3	--	--	--
New Zealand	220.8	183.5	332.0	--	--	--
TOTAL	848.5	508.3	849.3	--	--	--
Europe						
Austria	--	--	--	13.5	2.1	2.0
Belgium-Luxembourg	--	--	--	35.7	20.4	29.2
Denmark	93.2	105.3	128.5	--	--	--
France	134.5	251.6	291.6	167.6	117.3	159.6
Germany, Fed.Rep. of	76.4	116.5	137.8	237.0	175.9	197.1
Greece	--	--	--	61.8	24.4	37.4
Ireland	131.1	199.0	270.4	--	--	--
Italy	--	--	--	433.2	296.8	320.5
Netherland	120.7	134.2	137.3	84.2	48.0	44.9
Portugal	--	--	--	20.1	36.2	23.7
Spain	--	--	--	75.7	14.0	26.8
Sweden	3.7	3.4	0.6	6.0	8.0	13.1
Switzerland	--	--	--	36.4	15.9	10.9
United Kingdom	--	--	--	270.3	249.2	196.4
Yugoslavia	65.5	35.1	36.7	--	--	--
TOTAL	625.1	845.1	1002.9	1441.5	1008.2	1061.6
Asia						
Israel	--	--	--	23.0	17.3	12.0
Japan	--	--	--	127.2	53.6	44.9
TOTAL	--	--	--	150.2	70.9	56.9
Africa						
South Africa	59.1	25.0	30.0	--	--	--

* Source: Sept. '76 "Monthly Bulletin of Agricultural Economics and Statistics" - Food and Agriculture Organization of the United Nations - Rome

TABLE 3

SURVEY OF RETAIL FOOD PRICES IN SELECTED WORLD CAPITALS, JULY 7, 1976

(in U.S. dollars per lb., converted at current exchange rates)

City	Steak Sirloin Boneless	Roast Chuck Boneless	Pork Chops	Ham Canned	Bacon Sliced Pdgd.	Broilers Whole
Bonn	4.12	2.82	2.31	(1)	3.96	.77
Brasilia	.74	.48	.93	1.84	2.49	.51
Brussels	3.82	1.96	1.88	2.63	1.37	1.11
Buenos Aires	.63	.27	.79	(1)	(1)	.46
Canberra	1.71	.78	1.80	4.65	2.79	.96
Copenhagen	4.86	2.28	2.65	2.40	2.49	.97
London	3.14	1.46	1.41	1.52	1.84	.61
Mexico City	1.81	1.34	1.44	2.96	1.94	.98
OTTAWA	2.04	1.38	2.19	2.35	1.66	.89
Paris	2.93	1.57	(1)	3.37	3.82	.87
Rome	2.99	2.17	1.90	4.48	1.73	1.09
Stockholm	5.11	2.89	2.32	2.89	2.66	1.47
The Hague	3.66	2.08	2.15	2.25	2.98	.75
Tokyo	8.42	6.73	2.82	4.25	2.83	1.22
Washington	1.77	1.12	2.06	2.67	1.98	.51
Median	2.99	1.57	1.98	2.67	2.49	.89

(1) Not available

Source: "Foreign Agriculture", August 9, 1976, U.S.D.A.

TABLE 4

CANADA, PER CAPITA MEAT CONSUMPTION

	1972	1973	1974	1975	Preliminary[a] 1976
Beef	92.5	91.8	94.7	102.3	108.0
Veal	3.5	3.1	3.5	5.4	4.5
Pork	61.0	57.6	59.9	48.4	49.0
Mutton & Lamb	4.7	3.7	2.5	2.9	2.5
Total Poultry	45.5	46.9	45.4	42.1	45.1
Chicken	31.4	32.8	31.0	29.0	32.0
Turkey	10.4	10.2	10.5	9.5	9.0
TOTAL MEAT	207.2	203.1	206.0	201.1	209.1

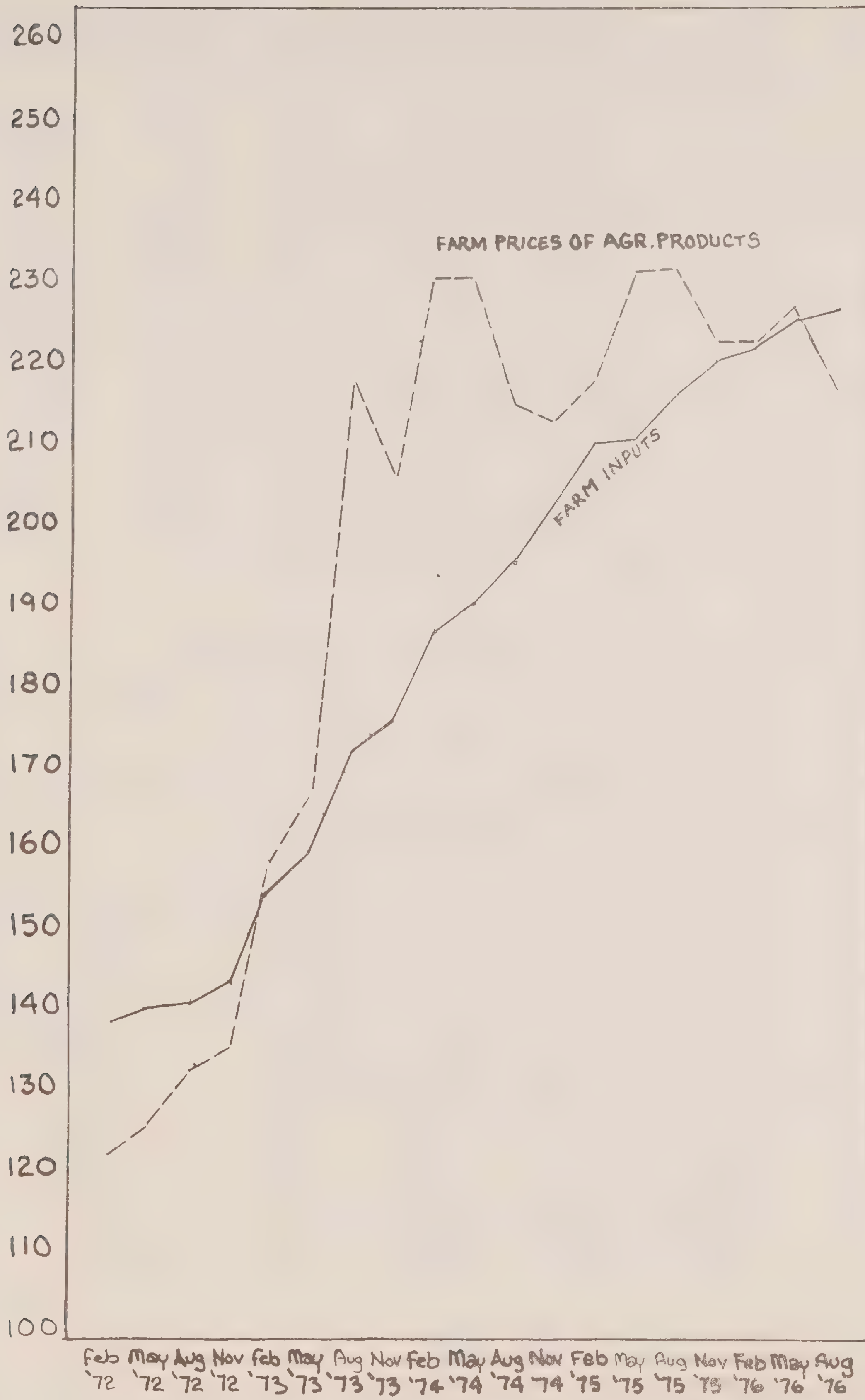
[a]Source: Agriculture Canada, Ottawa

Source: Statistics Canada, Ottawa

Index Numbers of Farm Inputs and Farm Prices of Agricultural Products

1972-1976

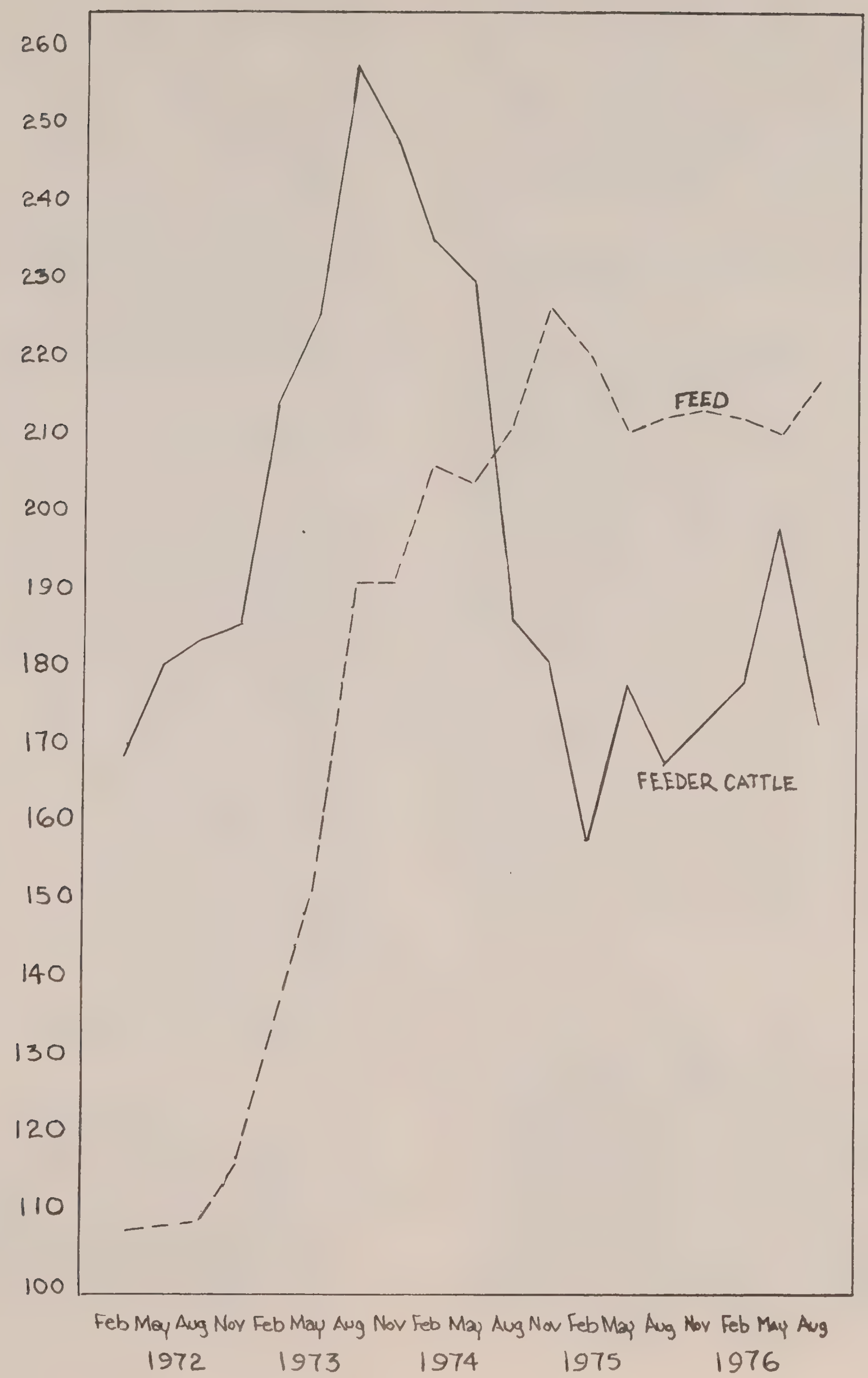
(1961=100)



Index Numbers of Feed Costs and Prices for Feeder Cattle Compared

1972-1976

(1961-100)



Deltec

The following article on the Brazilian operations of Deltec International is part of an ongoing series of articles in this Bulletin *on U.S. investments in Brazil. Past issues have included articles on Ludwig's Amazon investments, Brascan, foreign investment trends, and the opening of the Amazon to foreign investment. These studies are in no way exhaustive, but rather aim to call attention to major investment developments which have a profound impact on the economic, political and social conditions in Brazil. We intend to continue research on Deltec and would appreciate any suggestions, criticisms and additional information readers may have.*

As foreign investors strategize to develop new ways to deal with rising nationalism in Latin America, one of the frequently cited models is a private investment bank called Deltec International. A key part of Deltec's investment strategy, perfected over a period of nearly thirty years, consists of creating alliances between the wealthy of Europe and North America on the one hand, and the emerging bourgeoisie in Latin America on the other hand. Deltec and its allies invest in and control enterprises in Latin America through nationals representing their interests. This "low profile" limits exposure to nationalist policies designed to reduce foreign financial control of Latin America. Deltec functions as both middleman (between foreign investors and local interest), and as an investor itself.

During an interview in 1969, Clarence Dauphinot, the founder of and main force behind Deltec, expanded on his strategy for dealing with different and changing political situations:

> The particular kind of government in power does not matter; nor does it really concern us who is head of the government–as long as the basic institutions of the nation's political and economic life are not disturbed. We could not function in Brazil under Goulart, nor in Venezuela under Perez Jimenez. But once these gentlemen departed and the disrupted institutions were revived, we were back in business.[1]

In other words, as long as the government is open to foreign capital, Deltec can find a way to turn a profit, no matter what the form of government.

This all started for Deltec in 1946, when Clarence Dauphinot was working as a bond trader in Latin America for the U.S. investment bank of Kidder, Peabody and Co. He realized that Latin America was going to become a very lucrative place to invest after World War II, and was able to convince his employers to help him start.[2] He chose to start in Brazil, and Brazil has remained the site of Deltec's most extensive operations. These range from cattle ranching and meat packing to investment banking, real estate, flour mills, sugar mills, and chemical plants. In addition, Deltec has loaned money in Brazil to hundreds of medium and large-sized companies, many of which are foreign-owned or foreign-controlled. These include major department stores, textile manufacturers, construction companies, paper plants, electronic plants, state public utilities companies and banks.

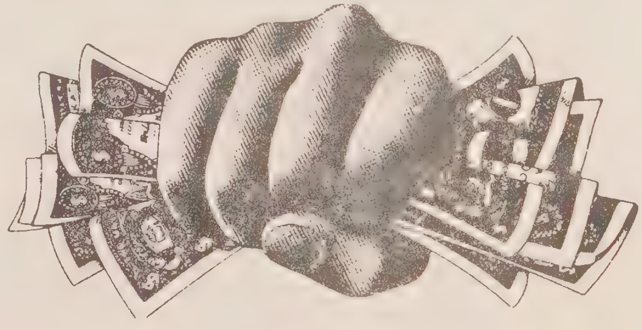
DOMINIUM

Deltec is a master at quick "in and out" buying and selling of companies. One of the most notorious examples of this involves Dominium, a Brazilian coffee company, and a group of flour mills called Moinho Ingles.[3] In 1966 Deltec bought the Moinho Ingles complex from S. G. Warburg, an English investment bank (which, in turn, is a big owner of Deltec stock). Deltec paid $2.3 million for five flour mills, a textile mill, and a biscuit factory. Shortly after the purchase, in 1967, Deltec started reselling Moinho Ingles piece by piece, mostly to Dominium. Since Dominium did not have enough money for the two flour mills, textile mill and biscuit factory it wanted, Deltec loaned it the $2.7 million purchase price. In return, Deltec received the mortgage for this property. Soon after, Dominium encountered severe problems exporting instant coffee due to U.S. tariff restrictions, and when its desperate attempts to obtain enough money to keep operating failed, in May of 1968 it was forced to close down both its coffee and flour operations. In the meantime, Deltec, which still held the mortgage for Moinho Ingles, foreclosed on its mortgage and, even though Dominium had already paid Deltec 21% of the $2.7 million sale price. In the final accounting, Deltec, which had originally bought the Moinho Ingles complex for $2.3 million, had resold bits and pieces of it for $6.9 million, and then got part of it back.

MEAT PACKING

Deltec attempted a similar financial sleight of hand with its interests in the Swift-Armour meat packing operations. In 1969 Deltec Panamerica diversified its banking business through a merger with International Packers Ltd. (IPL), the holding company for the Swift and Armour overseas cattle and meat packing operations. Deltec figured it could put its marketing experience gained through its international investment banking business to profitable use acting as an intermediary between meat packers and international markets.

One of the assets Deltec acquired through its 1969 merger with IPL was Swift de la Plata, Argentina's largest meat packing plant. One year later, in September of 1970, it closed down this plant, declaring it bankrupt because of rising cattle prices. Deltec asked the Argentine government to pay off this plant's debts. The Argentines refused, claiming that they would assume the debts only of meat packing companies which were at least 51% owned by national capital. Then, on September 22, 1971, an Argentine judge declared the Swift plant bankrupt. Deltec appealed this decision, but in September, 1973, another Argentine judge declared Deltec responsible for all Swift de la Plata debts, and started bankruptcy proceedings on 13 other Deltec affiliates in Argentina to cover the debts.[4]



At the same time that Deltec was declaring Swift de la Plata bankrupt, it was planning to build the largest meat processing plant in the world in Ilha De Marajo in the mouth of the Amazon River in Brazil.[5] Labor was cheaper and less organized and under repressive government control in Brazil, and Brazil was five shipping days closer to European markets. Some observers also interpreted Deltec's move as an effort to help Brazil become the world's largest meat exporter, thus reducing Argentina's power in the world meat market. In 1971 Deltec described the Amazon cattle prospects to its shareholders as follows:

> The long-term thrust of Deltec's ranching activities will center around the exciting potential of the Amazon valley. Deltec and King Ranch own 176,000 acres of virgin land in the state of Para. It is our belief that this area will, in the future, become one of the most important producers of animal protein in the world. The accessibility of this region is rapidly improving with Brazil's ambitious Amazonian highway development . . . Financial and investment incentives being granted by the Brazilian government have rapidly accelerated the development to the region and Deltec with its project is in the forefront of a large number of investors who are entering this region. . . .[6]

Deltec was also involved in additional cattle ranching ventures in Brazil mainly through partnerships with the King Ranch of Texas.[7] In early 1971, Deltec, through its subsidiary, Swift do Brasil, purchased a ranch in north-central Brazil (State of Maranhao), most of whose land was located in the area set aside as a reservation for the Kaapor (Urubu) and Tembe Indian tribes. Deltec was able to complete the purchase only after Costa Cavalcanti, the Brazilian Minister of Interior, overruled the objections of the National Foundation for Assistance to the Indian (FUNAI), circumvented national laws and transferred the jurisdiction of the disputed territory to the state of Maranhao. He then got the state officials to approve the deal for Swift and King Ranch.[8] Cavalcanti's excuse for his executive actions was that Brazil needed such ranches in order to become the largest cattle-exporter in the world.

In implementing a recently initiated program to divest itself of all its manufacturing operations, Deltec has now sold its controlling interests in the Brazilian Swift and Armour meat packing operations as well as most of its ranches. These were bought mainly by close business associates, such as Brascan and the Brazilian mining magnate Augusto Antunes. They have agreed to supply Deltec with meat for its food distribution business, which Deltec has retained and is expanding.[9] This side of the meat business has the least risks, the least likelihood of being nationalized, makes the highest profits, and leaves Deltec in a much less exposed investment position. In this move Deltec joined the growing list of Latin American enterprises (such as the United Fruit Co. and Patino Mining Co.) which are being forced out of or are giving up ownership of local production and moving to secure monopoly positions of control in foreign marketing.[10]

One of the bitter ironies of Deltec's meat operations in Brazil is that while millions of the country's people suffer from malnutrition (see article on infant mortality in this issue) Deltec produces and markets mainly for foreigners. Deltec is the leading exporter of Brazilian beef and at the end of 1971 was originating about 30 percent of all export beef shipments. In 1971, 69 percent of Deltec's beef was exported (versus 40 percent in 1970, 20 percent in 1969 and 7 percent in 1968).[11]

REAL ESTATE

One of the areas of the Brazilian economy in which Deltec has been most successful is real estate. In 1967, Deltec acquired a controlling interest in Companhia City de Desenvolvimento, a real estate company founded in 1911 by British businessmen. Cia. City is now the leading land development company in the world's fastest growing city, Sao Paulo. The British owners developed 3,000 acres of what has become Sao Paulo's most exclusive housing development – the famous Jardim sections. Cia. City now owns about 1,600 acres in Anastacio, the last undeveloped zone within the city limits of Sao Paulo. In the nearby university town of Piracicaba, Cia. City owns 600 acres, about 15% of the town's land area. In Sao Paulo, Cia. City also owns a ten-story downtown office building, a 420,000 square foot shopping center on the Marginal Highway and a proposed 700,000 square foot office complex, also on the Highway.[12] Deltec thus has developed a complete real estate unit, which not only builds and sells, but also provides a network of financial, design, sales and other real estate services.

INVESTMENT BANKING

Deltec's main interest in Brazil remains in the financial field. Deltec Banking Corporation, Deltec's largest and most important subsidiary, arranges loans for Brazilians through its ties in the international financial market. In Brazil from 1967 until 1972, this was done through an investment bank called Banco de Investimento do Brasil (BIB). Deltec established BIB in partnership with the Rockefellers' International Basic Economy Corp. (IBEC), and Uniao de Bancos Brasilieros (UBB), each of which owned 20% of BIB's capital. The remaining BIB shares were owned by Brascan, Commerzebank of Germany, Credit Suisse, Augusto Antunes, Refinaria Uniao and Deutsche Bank of Germany.

As the largest private non-commercial bank and financial institution in South America, the BIB has played a major role in the development of the Brazilian capital market. It manages and owns a number of mutual funds, including Fundo Crescinco, South America's largest mutual fund; Fundo de Investimento BIB-CRESCINCO, the country's largest tax incentive fund; and Condominio Deltec, which has enjoyed the highest return of all Brazilian mutual funds.[13] As was one of the first companies to be involved in the Brazilian capital market, Deltec was in a good position to work with foreign investors when investment opportunities were opened up after the military coup in 1964.

In 1972, Deltec and IBEC sold their shares of BIB, claiming that this was done at the request of the Brazilian shareholder – Walter Moreira Salles, one of the Rockefellers' principal partners in Brazil – and his bank, UBB. Later that year, Deltec announced it had acquired a 21% interest in Banco Finasa de Investimento, another Sao Paulo-based investment bank, and one of BIB's major competitors. Finasa, which is not as large as BIB, is mostly owned by Brazilian capital, with an impressive list of international banks making up the balance, thus providing Deltec additional contacts in Brazilian and international financial circles.[14]

Deltec's main objective, according to its founder and president, Clarence Dauphinot, is to create local capital markets in developing areas.[15] Creating capital markets (as described in Bulletin #6, page 10) is one of the crucial steps in opening the savings and family-held corporations of developing areas, such as Brazil, to foreign investors.[16] It also helps "stabilize" capitalism by giving the middle class a "stake" in the system (shares in a company or mutual fund). Thus, it is no surprise that Deltec's principal owners are leading international bankers who share Deltec's objectives and who participate in many of the loans and investments Deltec arranges in Latin America. They include Goldman Sachs, a powerful Wall Street investment bank; the Bank of London and South America (BOLSA); Deutsche Bank, Germany's largest commercial bank; the Banco de A. Edwards (the Edwards family being one of the most powerful forces opposing the Allende government); S. G. Warburg and the J. Henry Schroeder Banking Corp., two influential international banking houses; and Nikko Securities, a large Japanese securities corporation.

TIES THAT BIND

Deltec's effectiveness in Brazil (as elsewhere) depends on its close ties to influential local businessmen and financiers. One example, mentioned above is Augusto Antunes, the mining magnate who operates joint ventures with giants such as U.S. Steel, and Hanna Mining Co., and who last year joined Brascan in buying Swift-Armour do Brasil from Deltec.[17] Another person who at least until recently was closely associated with Deltec, as well as with Antunes and the Rockefellers, is Walter Moriera Salles. Until 1972, he was a member of Deltec's board of directors, as well as being the president of UBB and BIB. Moreira Salles is a leading Brazilian banker and has served as a former ambassador to Washington and Finance Minister.

BEYOND BRAZIL

Aside from Brazil and Argentina, Deltec is involved in almost every other country in Latin America, as well as in Western Europe, Eastern Europe, Australia, New Zealand, Greece, Turkey, and most recently, Japan and Hong Kong. It has underwritten over a billion dollars worth of loans to governments and for such projects as a Mercedes-Benz plant in Venezuela, a steel mill in Argentina and a project to improve first class hotel service in Latin America. In 1969, it started making loans to Eastern European countries, with the goal of being the first Western financial corporation to make loans in the Soviet Union. In 1972, Deltec formed an alliance with Nikko Securities, a large Japanese securities corporation.[18] This alliance will help Deltec enter the investment banking business in Asia, and also will help Nikko further Japanese involvement in Latin America. Having developed the Deltec strategy in Latin America, its backers now want to use it to help penetrate the rich potential markets of Eastern Europe and Asia.[19]

FOOTNOTES

1. "Entrepreneur, Middleman, Builder in the World of Investment: An Interview with Clarence Dauphinot, Jr.," *Columbia Journal of World Business*, January-February 1969.
2. Ibid.
3. The major sources for this section on Dominium and Moinho Ingles were: *Sunday Times* (London), October 27, 1968: *Christian Science Monitor*, June 27 and 28, 1968.
4. For a list of the Deltec affiliates see *The New York Times*, September 8, 1973. See also *The Wall Street Journal*, September 6, 1973 for a summary of the case.
5. *Frente Brasileno de Informaciones*, December 1970/January 1971.
6. *Deltec Country/Area Reports – 1971*, p. 24.
7. For the IPL/Deltec/King Ranch relationship see the three-part article on the King Ranch in *Fortune*, June, July and August, 1969. According to its 1971 *Country/Area Reports*, Deltec at the end of 1971 operated, as a joint venture with the King Ranch, five ranches in the state of Sao Paulo with a total of 145,000 acres and 30,000 head of cattle. Deltec also wholly owned four ranches in the state of Sao Paulo and Minas Gerais comprising 106,000 acres with 18,000 head of cattle (p. 24).
8. The source for this episode is a typed memo from the World Council of Churches' Program to Combat Racism (Geneva).
9. *The Wall Street Journal*, December 18, 1972. Deltec's relationship with Brascan dates back to 1947 when, in one of its first big moves, Deltec issued stock for Brazilian Traction, a predecessor of what is now Brascan (*The New York Times*, February 4, 1968). Until recently, Deltec and Brascan both participated in the ownership of Brazil's largest investment bank, Banco do Investimento de Brasil (BIB) and in Refinaria Uniao, an oil concern now controlled by Petrobras. Deltec has also loaned money to Brascan subsidiaries. See *Bulletin* #11 for article on Brascan.
10. See "United Fruit is not Chiquita," NACLA NEWSLETTER, October 1971 and "Empire Reborn," *Forbes*, August 1, 1970 (Patiño).
11. *Deltec Country/Area Reports – 1971*, p. 21. *Latin America* (London), of February 8, 1974 reports that meat exports for 1973 are believed to have been around $400 million, the fourth largest agricultural export (after coffee, soybeans and sugar). These four commodities accounted for nearly half of Brazil's record exports in 1973.
12. *American Banker*, November 28, 1973.
13. See *Country/Area Reports – 1971*, pp. 34-35.
14. These banks include: Banco Mercantil de Sao Paulo, Banco Nacional do Comercio de Sao Paulo, Banco Nordeste de Sao Paulo, Banco Novo Mundo, Morgan Cuaranty Trust, International Finance Corp. (World Bank affiliate), Baring Brothers, Canadian Imperial Bank of Commerce, Deutsche Sudamerikanische Bank, Stockholms Enskilda Bank, and the Industrial Bank of Japan.
15. See "Entrepreneur . . .," op. cit.
16. See *Bulletin* #6, p. 10.
17. For the story of Antunes see "Brazil's Chief Miner," *Fortune*, April 1966.
18. Nikko bought 2.7% of Deltec Panamerica, which in turn owns 34% of Deltec International. This made Nikko the eighth largest shareholder in Deltec Panamerica. See *Business Latin America*, August 10, 1972, p. 250 and the *Journal of Commerce*, June 29, 1972.
19. According to *The Wall Street Journal*, January 1, 1974, a recent Deltec joint venture with a Yugoslavian food company represents the first joint venture between a Yugoslavian enterprise and a foreign company. The venture will process and sell $15 million of beef products, mainly for export markets in Western Europe.

BRAZIL

TORONTO GLOBE AND MAIL Dec 6/75

Raising beef on the Bar VW

SAO PAULO

BY BJORN KUMM

IN SEPTEMBER this year, the U.S space authorities notified their Brazilian counterparts that large parts of the forest of the Amazonas seemed to be on fire.

The Brazilians, alarmed, studied their maps and the aerial photographs taken by NASA satellite ERTS. They next pounced on a well-known manufacturer of small, beetle-shaped German cars, long-since established in Brazil.

What are you doing in the Amazonas" the Brazilians asked.

Volkswagen calmly answered: Look, we're just burning down a piece of forest. We're clearing the jungle for our cattle-ranch. It is all in accordance with Brazil's plans for developing the Amazonas region.

Which is absolutely true.

Volkswagen's decision to go into cattle-breeding may look like the outcome of some unusually pessimistic thinking on the part of one of the world's biggest car manufacturers. But Volkswagen is not planning, mainly to raise horses in the event the automobile age dies. Volkswagen, like a number of other multinational companies working in Brazil, has of late decided that there is a lot of money to be earned on cattle-breeding and meat-packing. These companies have made huge investments in the Amazonas, prodded and abetted by the Brazilian government.

For a long time, the Amazonas was the great unknown future of Brazil. Every government talked lyrically of the enormous resources waiting to be tapped, the fertile land waiting to be cleared. The area covers 60 per cent of Brazil's surface. But apart from the Brazilian army and the U.S. Air Force—which mapped the area through an aerial survey expedition shortly after the Second World War—nobody knew very much about the resources available, and no great efforts were made to conquer the Amazonas.

It kept on being the land of the future. But in the last few years, the picture has rapidly been changing.

Right now, the Brazilian government is busy building a road network through the Amazonas. Multinational companies have moved in and bought some 7-million hectares of land. Cattle-ranching and mining are the main objects the multinationals have in mind.

Everthing seems to exist in the Amazonas: iron, bauxite, manganese, gold. Exports will start in the next few years. The Amazonas could become the standby minerals reserve for industrialized countries, hard-pressed by OPEC and other attempts among the countries producing raw materials to gang up on their former masters.

"Other countries manage to reach the moon, regardless of costs and efforts. Our moon expedition is the Amazonas." This is what Brazilian officials have been saying for the last decade. To Brazil, conquering the Amazonas is a feat to prove the country's manhood, to become a great power in its own right.

There was great consternation in Brazil in the late sixties when it was announced that Herman Kahn's think-tank, the Hudson Institute was developing some wide-ranging schemes to turn the Amazonas into an American continental lake. Brazilian planners have always had the feeling they were doing their job at the very last moment. If Brazil does not develop the Amazonas, they feel somebody else will—and it does not take a great deal of imagination to figure out which big bullying neighbor to the north that would be.

So the conquering of the Amazonas has begun, and this is what the Brazilian government has been doing so far:

The federal Brazilian agency SUDAM (The Super-Intendenture for the Development of the Amazonas) has drawn up a general plan for the area and the 5-million square kilometers it covers. The nerve system will be the road network now in the process of being built, 14,000 kilometers of tarred road.

The intention has been that flourishing agriculture should be developed along the highway and landless peasants from the desperately poor northeastern region of Brazil should be given parcels of land, through a kind of back-door agrarian reform.

But it is not the poor peasants from the northeast who are being given economic aid and government support: it is the multinational and large Brazilian companies who are themselves turning into *fazendeiros*, Brazilian land-owners.

The conditions have been extremely favorable: 50 per cent of company taxes in any one year will be returned to the company provided it channels the money into an approved agricultural project in the Amazonas. SUDAM, has to date approved and stimulated 373 different projects of this nature in the Amazonas, at a value of $3-billion U.S. Out of that money, one third is company capital. The rest is financial aid from the Brazilian government, tax rebates, etc.

Land has been cheap. At its lowest, Amazonas land sold for $1 a hectare (50 cents an acre). Volkswagen bought 160,000 hectares for its ranch at Rio Cristalino; Georgia Pacific, a U.S. company bought 500,000 hectares. Italian Liquifarm bought 680,000 hectares. Japanese Toyomenka 300,000 hectares. •